

Message Text

PAGE 01 SEOUL 04294 161117Z

45

ACTION EA-10

INFO OCT-01 ISO-00 AGR-05 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 IO-10 /098 W
----- 054090

P R 160845Z JUN 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 678

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SEOUL 4294

PASS TO EA/EAA, AID/W

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: EFIN, IBRD, KS

SUBJECT: KOREA CONSULTATIVE GROUP MEETING:
RESTRAINT ISSUE

REF: (A) SEOUL 3738 (B) SEOUL 2930 (C) SEOUL 4235

SUMMARY: WHILE FISCAL AND MONETARY STIMULUS HAS DECREASED
STEADILY IN RECENT MONTHS, RECOMMEND WE POINT OUT
NEED FOR CONTINUED RESTRAINT TO IMPROVE BALANCE OF
PAYMENTS, AVOID IMPORT RESTRICTIONS AND SLOW INFLATION.
WE SHOULD ALSO NOTE THAT LARGE GRAIN AND FERTILIZER SUB-
SIDIES POSE BOTH FISCAL AND RESOURCE ALLOCATION PROBLEM.
END SUMMARY.

1. PER REF (A), ONE ISSUE AT JULY 2-3 CG MEETING WILL BE
APPROPRIATENESS OF KOREA'S MONETARY/FISCAL POLICIES IN
RELATION TO SERIOUS BALANCE OF PAYMENTS SITUATION (SEE REF (C)).
FOLLOWING IS DESCRIPTION OF CURRENT POLICY SITUATION
CONFIDENTIAL

PAGE 02 SEOUL 04294 161117Z

PLUS OUR RECOMMENDATION RE U.S. POSITION.

2. FISCAL/MONETARY STIMULUS, AIMED AT COMBATING
UNEMPLOYMENT CAUSED BY EXPORT SLUMP, HAS NOTICEABLY

DECREASED IN RECENT MONTHS. MONTHLY INCREASE IN DOMESTIC CREDIT, WHICH AVERAGED 7.3 PERCENT IN NOVEMBER-DECEMBER AND WAS 5.0 PERCENT IN JANUARY, HAS DECLINED STEADILY TO 1.6 PERCENT IN MAY. TOTAL INCREASE OF 17.6 PERCENT THROUGH MAY WILL MAKE IT EASY TO STAY WITHIN REVISED CEILING OF 20 PERCENT FOR FIRST HALF. MONEY SUPPLY DECREASED 3.5 PERCENT DURING FIRST 5 MONTHS DUE TO DEFLATIONARY EFFECT OF BOP DEFICIT. PRIVATE CREDIT HAS BEEN PARTICULARLY TIGHT AND EFFECTIVE BORROWING RATES AT BANKS ARE HIGHER THAN PRIME RATE OF 15.5 PERCENT. AS IS COMMON AT SUCH TIMES, ACTIVITY AND INTEREST RATES ON THE CUB MONEY MARKET HAVE INCREASED IN RECENT MONTHS.

3. FISCAL DEFICIT, WHICH HAVE ACCOUNTED FOR 49 PERCENT OF DOMESTIC CREDIT INCREASED SO FAR, HAVE ALSO DECLINED. BUDGET DEFICIT OF 52 BILLION WON IN FIRST QUARTER CHANGED TO 29 BILLION WON SURPLUS IN APRIL-MAY. SMALLER SUBSIDY LOSSES ON GRAINS AND FERTILIZERS RESULTED IN OVERALL FISCAL DEFICIT OF ONLY 9 BILLION WON IN APRIL- MAY COMPARED TO 255 BILLION WON IN FIRST QUARTER (SEE REF B). DEFICITS SO FAR OF 115 AND 90 BILLION WON IN GRAIN AND FERTILIZER FUNDS HAVE BEEN MUCH LARGER THAN IN SAME 1974 PERIOD, HOWEVER, AND HAVE ALONE ACCOUNTED FOR 39 PERCENT OF DOMESTIC CREDIT INCREASE IN FIRST 5 MONTHS. PRICE PAID TO FARMERS FOR NEW BARLEY CROP WAS RECENTLY SET 22 PERCENT ABOVE 1974 PRICE, ADDING TO GRAIN SUBSIDY BURDEN.

4. GOVERNMENT STIMULATIVE MEASURES HAVE HAD DESIRED EFFECT ON INDUSTRIAL PRODUCTION WHICH (SEASONALLY ADJUSTED) SURGED 13.3 PERCENT FROM OCTOBER LOW TO JANUARY AND INCREASED ANOTHER 2.7 PERCENT FROM JANUARY TO APRIL, WHEN IT STOOD 12.8 PERCENT ABOVE YEAR EARLIER. PRELIMINARY DATA SHOW REAL GNP IN FIRST QUARTER WAS 5.4 PERCENT ABOVE YEAR EARLIER, DUE PARTLY TO 38 PERCENT INCREASE IN GOVERNMENT CONSTRUCTION
CONFIDENTIAL

PAGE 03 SEOUL 04294 161117Z

AND WORK RELIEF ACTIVITY AND 30 PERCENT RISE IN STIMULATED HOUSING CONSTRUCTION.

5. CONSUMER PRICE INDEX HAS RISEN 15.5 PERCENT AND WHOLESALE INDEX 13.0 PERCENT IN FIRST 5 MONTHS, PARTLY DUE TO DEVALUATION EFFECTS AND APRIL INCREASES IN CONSUMER GRAIN AND TOBACCO PRICES. WHOLESALE PRICE INDEX FOR IMPORTED GOODS FELL SLIGHTLY DURING LAST TWO MONTHS BUT OVERALL INDEX ROSE 5.2 PERCENT.

6. CONCLUSION AND OUTLOOK: FISCAL STIMULUS BEGUN LAST NOVEMBER BROUGHT QUICK END TO GENERAL KOREAN RECESSION (EXCEPT FOR DEPRESSED EXPORT INDUSTRIES)

BUT UNDOUBTEDLY ADDED TO RATE OF INFLATION AND BOP DEFICIT. FISCAL DEFICITS AND EASY MONEY POLICY IN LATE 1974 MADE POSSIBLE EXCESSIVE IMPORT ORDERING WHICH AGGRAVATED BOP IN FIRST QUARTER. TIGHTER MONEY NOW, WHILE NECESSARY TO LIMIT IMPORT BILL, RUNS RISK OF HAMPERING EXPORT AS WELL AS DOMESTIC EXPANSION. ROKG HAS OBTAINED PERMISSION FROM IMF TO INCREASE DOMESTIC CREDIT BY 35.3 PERCENT IN 1975, RATHER THAN 31.2 PERCENT EARLIER AGREED, BUT THIS WILL REQUIRE CONTINUED TIGHT MONEY AND IMF HAS EMPHASIZED IT DOES NOT WISH TO SEE CEILING EXCEEDED FOR FOURTH YEAR IN ROW. OVERALL FISCAL DEFICIT STILL LIKELY BE AROUND 450 BILLION WON IN 1975, AS FORECAST REF (B), UNLESS SOME SUBSIDY PAYMENTS CARRIED OVER TO NEXT YEAR AS HAS BEEN RECENT PRACTICE. MEANWHILE LARGE GRAIN AND FERTILIZER SUBSIDIES ALSO CAUSE UNECONOMIC USE OF THESE SCARCE RESOURCES. PRICE INDICES SHOULD RISE AT SLOWER RATE IN REST OF YEAR BUT TOTAL INCREASE LIKELY BE ABOUT 25 PERCENT RATHER THAN FORECAST 20 PERCENT.

7. RECOMMENDED POSITION: RECOMMEND WE NOTE THAT DOMESTIC ECONOMY WAS APPARENTLY OVER-STIMULATED IN LATE 1974, AND EARLY 1975, AS INDICATED BY SHARP INCREASE IN INDUSTRIAL PRODUCTION AT TIME EXPORTS WERE DEPRESSED AND BOP DEFICIT WAS LARGE AND GROWING. WE SHOULD WELCOME SHARP REDUCTION IN FISCAL DEFICIT AND STEADY DECREASE IN NEW DOMESTIC CREDIT IN RECENT MONTHS
CONFIDENTIAL

PAGE 04 SEOUL 04294 161117Z

AS MEASURES CONDUCTIVE TO BOP IMPROVEMENT, AVOIDANCE OF IMPORT RESTRICTIONS AND SLOWING OF INFLATION. WE SHOULD OBSERVE THAT LARGE GRAIN AND FERTILIZER SUBSIDIES HAVE BECOME SERIOUS MATTER, NOT ONLY FOR FISCAL AND MONETARY POLICIES BUT FOR RESOURCE ALLOCATION. NOTE: PRESUMABLY SIMILAR STATEMENTS WILL BE FOUND IN IBRD REPORT AND THESE CAN BE SUPPORTED IF PREFERRED. SIMILAR OBSERVATIONS ARE ALSO FOUND IN IMF DOCUMENT SM/75/122 OF MAY 20, BUT THIS WILL NOT BE A CG DOCUMENT.
SNEIDER

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ANTIINFLATIONARY PROGRAMS, ECONOMIC PROGRAMS, CONSULTANTS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SEOUL04294
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D750208-1045
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197506103/baaaaulu.tel
Line Count: 154
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2003 by KelleyW0>; APPROVED <14 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN, KS, IBRD
To: STATE INFO HONG KONG
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006